THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY AND EXHIBITS

OF

BRENT L. SIRES

Docket No. 2007-6-G

South Carolina Pipeline Corporation

Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies

DIRECT TESTIMONY OF
BRENT L. SIRES
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2007-6-G

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Brent L. Sires. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the State of South Carolina as a Senior Specialist in the Gas Department for the Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree, Marketing and Management, from the University of South Carolina in 1979. From 1980 to 2004, I was a member of the Utilities Department of the South Carolina Public Service Commission where I participated in cases involving natural gas. In January 2005, I began my employment with the ORS.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to address the purchasing policies of South Carolina Pipeline Corporation ("SCPC" or "the Company"), the recovery of SCPC's purchased gas costs, including the hedging program, and the Industrial Sales Program Rider ("ISPR") last approved for the Company by the Commission in Docket No. 2006-6-G, Order No. 2006-389 dated June 19, 2006.

Q. PLEASE ADDRESS THE PRESENT PURCHASING POLICIES OF THE COMPANY.

A. SCPC's supplies consist of purchases from independent suppliers for firm and interruptible service. The Company also operates two (2) liquefied natural gas ("LNG") facilities and utilizes storage on the interstate systems. After Federal Energy Regulatory

Commission ("FERC") Order 636, became effective April 18, 1992, the Company contracts for transportation and storage capacity on the interstate pipelines. SCPC's peak-day design for the 2007 winter period was based on a combination of direct firm and resale firm loads. This volume was 25,146 dekatherms ("dts")/day for direct firm customers plus 338,222 dts/day for resale customers totaling 363,368 dts/day. To meet the contracted firm requirements of its direct firm and sale-for-resale customers, SCPC contracted for capacity with Southern Natural Gas Company ("Southern") and Transcontinental Gas Pipe Line Corporation ("Transco"). The contracted capacity on the Southern system is 191,948 dts/day and on the Transco system is 95,766 dts/day. Additionally, the Company owns and operates LNG facilities at Bushy Park near Moncks Corner ("Bushy Park") and near the town of Salley ("Salley). Shown in the chart below are the capacity and inventory levels of the two LNG facilities at October 31, 2006. These facilities are used primarily as a mechanism to help meet firm peak loads on the system as well as providing a backup supply of gas in emergency situations. There are limitations to the amount of LNG that can be vaporized from these facilities. The output for the Bushy Park facility is 63,000 dts/day and the output for the Salley facility is 48,272 dts/ day.

LNG Facility	Capacity	Inventory	Percent of Capacity
	MCF	MCF	
Bushy Park	980,000	835,789	85.28%
Salley	900,000	784,035	87.12%
Total	1,880,000	1,619,824	86.16%

Q. WHAT IS THE REVIEW PERIOD FOR THIS PROCEEDING?

A. ORS's review encompassed the ten-month period January 2006 through October 2006.

Q. FOR THE PERIOD UNDER EXAMINATION IN THIS PROCEEDING, WERE PRUDENT JUDGMENTS MADE TO MEET THE NEEDS OF THE COMPANY'S CUSTOMERS?

A. ORS has concluded that SCPC secures reliable gas supplies and makes prudent decisions in purchasing its gas supplies to balance its customer profile and system requirements with existing supply and capacity options. No supply problems for the firm customers were noted on the Company's system during the past winter period.

SCPC has contract storage with both Transco and Southern. This storage allows SCPC to add additional volumes into its system when needed and to balance supply with system load requirements. Shown in the chart below are the capacity and inventory levels of off-system storage at October 31, 2006 on the Transco and Southern Systems.

Off-System Storage	Capacity	Inventory	Percent of Capacity
	DT's	DT's	
Transco System	1,434,850	1,114,439	77.67%
Southern System	5,167,164	4,163,500	80.58%
Total	6,602,014	5,277,939	79.94%

One gauge that ORS uses in its determination of prudence is whether the Company has adequate levels of natural gas in storage as it enters the winter months to meet the design day requirements of the system. It is ORS's position that SCPC entered the 2006-2007 winter period with sufficient and adequate on-system LNG reserves and off-system natural gas supplies in storage facilities located on the Southern and Transco systems.

Q. DID THE COMPANY OBTAIN GAS SUPPLIES AT REASONABLE COSTS BASED ON MARKET INDEXED PRICES FOR THE REVIEW PERIOD?

A. Yes. ORS is responsible for monitoring the accuracy of capacity and gas supply costs that are recovered through the Company's purchased gas cost recovery mechanism. In order to fulfill this responsibility, it is necessary to sample supplier invoices annually. ORS verified through its review that SCPC recorded and recovered its actual gas cost through the Commission approved Purchased Gas Cost Recovery provisions in its gas tariff, which was most recently reviewed and approved in Docket No. 2006-6-G, Order No. 2006-389 dated June 19, 2006, and amended by Order No. 2006-433 dated July 26, 2006.

ORS has determined that SCPC exhibited its capabilities to secure gas supplies in a prudent manner and at reasonable costs based on market indexed prices. SCPC made reasonable efforts to obtain the lowest cost reliable supplies available to its system. During the review period, the Company exercised the following options to obtain a reliable supply of natural gas at reasonable market costs:

1) Purchases of natural gas under term contracts that guaranteed the total delivery of supply.

2) Purchases of natural gas on the spot market.

The Company contracts for capacity on the interstate pipelines in compliance with FERC Order 636. Additionally, the purchase of natural gas in the interstate markets has evolved into a transparent open market model with the pricing of supply contracts based on published indices of market prices. FERC Order 636 and its predecessor FERC Order 436 were the first major steps in the deregulation of the interstate natural gas system.

Unbundling of the commodity sales function from transportation and storage services resulted in removing interstate pipelines from monopolistic sales activity and allowed Local Distribution Companies ("LDCs") to choose their sales, transportation and storage providers. This action provided for the emergence of unregulated marketing of sales by producers as well as trading companies participating in natural gas sales. The unregulated market is the arena that local pipeline companies are functioning in today. This market can be described as both tremendously flexible, dynamic and volatile. SCPC's purchasing practices have evolved throughout this period to adapt to this environment.

Q. WHEN DID THE COMPANY BEGIN UTILIZING A HEDGING PROGRAM?

A. Pursuant to Docket No. 94-007-G, Order No. 95-1253 dated June 19, 1995, the Commission granted SCPC approval to implement a hedging program on a trial basis in a pilot program. The pilot program allowed the Company to hedge on the futures market for a period of one year beginning June 19, 1995 and limited hedging to no more than 30% of SCPC's system supply gas. The hedging program was modified by Order No. 97-477 and the Company currently operates its hedging program at the approved level of up to 75% of system supply volumes.

Q. WOULD YOU PLEASE ADDRESS THE COMPANY'S CURRENT HEDGING PROGRAM?

A. Yes. Since its inception, the hedging program has achieved the objective of improving cost predictability and reducing price risks by avoiding unexpected, radical cost changes that occur over short time periods in the gas spot market. The result of this program for the period under review is a net increase to cost of gas in the amount of

$1,394,651. This includes trading gains/losses as well as expenses incurred in administering the program including commissions, software, subscriptions and data feed. The impact to the weighted average cost of gas ("WACOG") resulting from Futures Transactions during the review period is identified on ORS witness Roy H. Barnette's Audit Exhibit "RHB-1." Since SCPC was authorized to implement hedging in 1995, the hedging program has resulted in a cumulative increase in the WACOG in the amount of $6,186,851. ORS found that SCPC's hedging program was administered properly during the review period.

Q. DURING THE REVIEW PERIOD HAS THE COMPANY COMPLIED WITH COMMISSION ORDER NO. 94-181 REQUIRING THE 20,000 DT A DAY OF THE LEAST EXPENSIVE DELIVERED GAS BE RESERVED FOR THE WACOG?

A. Yes. Commission Order No. 94-181 requires that the Company include in the WACOG an equivalent of 20,000 dts/day on an annual basis of the lowest cost gas entering the Company's system. The Commission in each of the subsequent annual reviews has ordered the continuance of this requirement. The objective of this recommendation is to ensure that firm customers receive a reasonable level of benefits from the lower cost gas entering SCPC's system. ORS recommended in the 2006 PGA proceeding that SCPC continue to assign 20,000 dts/day of the least expensive daily delivered gas volume to the WACOG (subject to the flexibility granted the Company during the summer period of April through October of assigning 10,000 dts/day of the 20,000dts/day requirement in accord with its varying load demand). Additionally, for calendar year 2006, this obligation should be a pro-rata obligation (as to the total requirements for the period of intrastate operations) and should end when the Company transitioned to interstate jurisdiction. Our audit confirmed that this requirement from the 2006 PGA proceeding was met.

Q. PLEASE DESCRIBE THE ISPR PROGRAM.

A. Beginning in the fall of 1982, natural gas utilities in South Carolina were faced with a combination of rising natural gas prices transported by Southern and Transco and the declining prices of alternate fuels. This combination resulted in SCPC experiencing a loss of natural gas sales to interruptible industrial customers with the capability to consume alternate fuels. Sales to interruptible customers contribute to the recovery of fixed cost, thus raising the concern that the loss of these sales would result in a long-term detriment to the remaining natural gas customers. This concern resulted in SCPC filing a petition with the Commission in April 1983 in Docket No. 83-129-G, for revision in its cost of gas adjustment calculations. SCPC petitioned the Commission for approval to revise its cost of gas adjustment calculations to enable the Company to compete with alternate fuels and mitigate the detrimental effects on residential, commercial, and firm industrial customers caused by the present loss of natural gas consumption to alternate fuels. In 1983, this Commission granted approval to these costs of gas adjustment calculations in Docket No. 83-129-G, Order No. 83-222.

Q. DOES ORS BELIEVE THE COMPANY'S INDUSTRIAL SALES PROGRAM RIDER OPERATED PROPERLY DURING THE REVIEW PERIOD?

A. Yes. ORS found that the ISPR was operated properly. ORS believes that this type of program or mechanism is required for a natural gas utility to effectively compete with alternate fuels in the industrial market.

Q. DO YOU HAVE ANY COMMENTS REGARDING SUPPLIER REFUNDS SCPC HAS RECEIVED FOLLOWING THE REVIEW PERIOD AND ANTICIPATED REFUNDS IN THE FUTURE?

A. Yes. ORS has reviewed the prefiled testimony of SCPC witness Thomas Conard beginning on page 12 at Line 7 where SCPC has proposed a methodology for refunding all future supplier refunds applicable to its operations up to the November 1, 2006 date when SCPC's operations transferred to FERC jurisdiction. ORS recognizes that there is the potential for future supplier refunds. Additionally, while not assured, there is potential for funds resulting from the class action suit entitled *Natural Gas Commodity Litigation* pending in the United States District Court, Southern District of New York. ORS supports the methodologies proposed by the Company and is confident they address existing and future refunds/claims the Company may receive.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.